

Documenting Salaries and Wages Charged to Federal Programs

Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments,” is a policy directive affecting what costs are allowable charges to federal programs, what costs are not allowable, and how costs must be documented. OMB Circular A-87 applies to all local educational agencies (LEAs) receiving federal funds.

Compensation for personnel services is an allowable cost for federal reimbursement. However, LEAs are required to document their salary and wage charges. The standards for documenting salary and wage charges are specified in OMB Circular A-87, Attachment B, Section 11(h). The standards for time distribution are in addition to those for payroll documentation. In general, the level of detailed backup support for accounting for the time spent by an employee is determined by whether an employee is funded from a single federal categorical program or cost objective, from more than one federal categorical program, or from a mix of federal and state programs or cost objectives. (OMB Circular A-87 defines *cost objective* as a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.) The salaries and wages of employees used in meeting cost sharing or matching requirements of federal awards must be supported in the same manner.

How an employee is funded determines whether the documentation of the employee’s time spent on federal programs can be satisfied by a periodic (semiannual) certification or must be provided in the more detailed form of a personnel activity report (PAR) or equivalent documentation. (PARs are discussed in the section titled “How Salaries and Wages Are to Be Documented.”)

Employees Funded from a Single Federal Categorical Program or Cost Objective

1. If an employee is funded solely (100 percent) from a single federal categorical program or cost objective or from a single nonfederal categorical program used in meeting cost sharing or matching requirements of federal awards, the minimum requirement for documenting salary or wages is a semiannual certification by the employee that he or she worked solely on that federal categorical or cost objective during the period covered by the certification. The certification must be signed by the employee or the supervisor having firsthand

knowledge of the work performed (OMB Circular A-87, Attachment B, Section 11[h][3]).

2. Whenever a Schoolwide Program (SWP) has been approved by the CDE, LEAs may use Improving America's Schools Act (IASA), Title I, funds in combination with other federal funds and state and local general-purpose funds to upgrade the entire educational program in a school (Title I, Part A, Subpart 1, Section 1114). A school-site employee working solely on an SWP may be considered to be funded from one cost objective, and a periodic certification is sufficient for time accounting.

If there are employees in the schoolwide program who are paid, in whole or in part, by federal programs that have not been combined in the schoolwide program, personnel activity reports will still be necessary for those employees. (See "Employees Funded from More than One Categorical Program Source or Cost Objective" on page 407-3.)

3. California's School-Based Coordinated Programs (SBCPs) combine several state categorical programs in a manner similar to but not identical with an SWP. Because of a recent change in *Education Code* Section 52853 for SBCPs, employees of an SWP at a school site funded from SWP and SBCP funds (and assuming those are the only two fund sources) may be considered as funded by a single cost objective.

Prior to considering the SWP and SBCP funds as a single cost objective, be sure that the SBCP school plan includes the proposed expenditure of IASA funds available to the school. If IASA funds are not included, the existing SBCP school plan should be revised to include them. For SWP and SBCP funds to be considered as a single cost objective, the school must operate the state-approved SWP in a manner consistent with the expenditure of funds available to the school under SBCP, which means that the SWP and SBCP funds must be used for the same purpose.

Essentially, for employees at a school site to consider their SWP and SBCP funding sources as a single cost objective, the school's funding sources must be contained in an SBCP and a state-approved Title I SWP. That means that the school would use all the funds available to upgrade the entire educational program in the school. If all the funds are not available to all the students, the SBCP and SWP funding sources cannot be considered as a single cost objective. There may be individual IASA funds used at an SBCP school, such as for Title I Targeted Assistance schools; however, those funds cannot be considered as a single cost objective unless they are included in a state-approved SWP that benefits all the pupils at the school.

4. Other instances occur in which it is unnecessary for every employee working in a project funded by a mix of federal, state, and local resources to substantiate federal time more often than semiannually. For example, the salary of a cook working in a school cafeteria may be funded from a mix of federal funds (free or reduced-priced meal reimbursement), state funds (additional reimbursement funds), and local funds (lunch sales). If the cook spends all of his or her time in the preparation and serving of school lunches, the cook is not required to provide detailed documentation of the proportion of his or her time to be charged to the federal portion of the funding because the cook's time is all one cost objective—food service. The cook must certify semiannually that 100 percent of his or her time was spent providing food service.

Similarly, an aide working in a child care center may be receiving wages from child development funds, which may include federal, state, and local resources. If the aide spends 100 percent of his or her time providing child care, the aide's time may be considered one cost objective. The aide must certify semiannually that 100 percent of his or her time was spent providing child care.

Employees Funded from More Than One Categorical Program Source or Cost Objective

Whenever an employee works in more than one categorical program or cost objective and at least one of the sources is federal, the distribution of the employee's salary must be supported by a PAR (see "How Salaries and Wages Are to Be Documented," on page 407-6) or equivalent documentation (OMB Circular A-87, Attachment B, Section 11[h][4], [5], and [7]).

The requirement to document the employee's time with a PAR or equivalent documentation is triggered by one or more of the following:

- The employee is funded by more than one federal categorical program source, and the funding is not combined in an SWP.
- The employee is funded by a mix of federal and state categorical program funding sources, and those sources are not combined in an SWP.
- The employee is funded by a mix of federal categorical programs (other than an SWP) and general purpose funding sources.
- The employee is funded by more than one nonfederal categorical program source, and one of the sources is used in meeting cost sharing or matching requirements of federal awards.

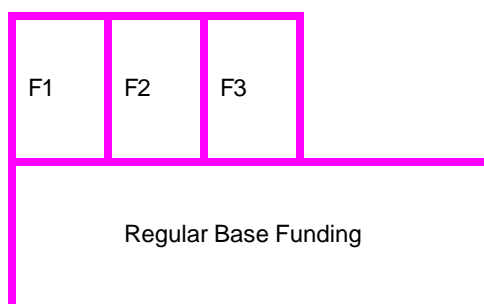
OMB Circular A-87 allows for substitute systems which use sampling methods that meet statistical sampling standards for allocating salary and wages to be used in place of a PAR (OMB Circular A-87, Attachment B, Section 11[h][6]). The United States Department of Education (USDE) has approved a substitute sampling system for time accounting for federal programs for the LEAs in California (see “Approved Substitute System for Time Accounting for Federal Programs,” pages 407-7 through 407-9.)

Whenever federal funding is used to fund an employee’s salary (unless the employee is 100 percent funded from only one federal source or in an SWP or covered under a Substitute System as noted previously), the time spent by the employee on federal projects must be documented with a PAR or an equivalent documentation.

Examples of documentation required according to different funding configurations are presented as follows:

School A

School A has three federal categorical programs (F1, F2, and F3) that supplement the school’s regular base funding. All categorical employees are multifunded, either by more than one federal categorical or by a federal categorical and other general-purpose revenues (regular base funding).

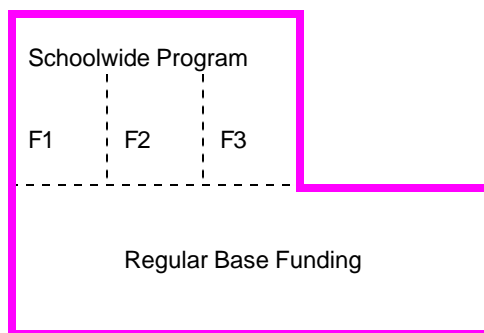


Requirements

In this example all of School A’s categorical employees are required to provide PARs for their total work time at least monthly because they are funded by two or more federal programs or by a federal program and the general-purpose revenues.

School B

School B has been approved as an SWP school. It has the same three federal categorical programs supplementing its regular base funding. In its SWP plan School B has combined F1, F2, and F3 and its regular base funding into a single cost objective.

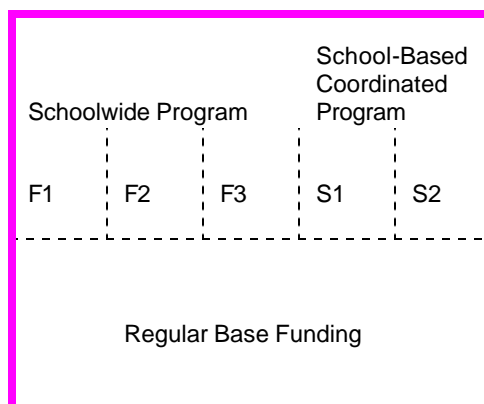


Requirements

In this example employees working solely at the School B site do not need to prepare PARs; semiannual certifications are sufficient. However, an employee who works at the School B site and works on other activities at another site must prepare a PAR.

School C

School C has been approved as an SWP school and has combined its regular base funding, its three federal categorical programs (F1, F2, and F3), and its SBCP funds from two state categorical programs (S1 and S2) as a single cost objective in its SWP plan.



Requirements

In this example School C employees working solely on the SWP do not need to prepare PARs; semiannual certifications are sufficient. However, an employee who works at the School C site and works on other activities at another site must prepare a PAR.

How Salaries and Wages Are to Be Documented

OMB Circular A-87 requires PARs or equivalent documentation to support the costs of salaries and wages charged to federal programs in which employees work on multiple activities or cost objectives (OMB Circular A-87, Attachment B, Section 11[h][4]).

The intent of a PAR is to document the employee's certification of work performed in each categorical program or cost objective during the month. The PAR may be as detailed as a time sheet that identifies the employee's activity daily by hours, or it may be as simple as a report of the total hours or percentage of hours spent in each categorical program or cost objective for the month. The level of detail can generally be determined by the diversity and variation of the employee's work activities. OMB Circular A-87 states that PARs or equivalent documentation must:

- Reflect an after-the-fact distribution of the actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Be prepared at least monthly and coincide with one or more pay periods.
- Be signed by the employee.

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards, but those figures may be used for interim accounting purposes provided that:

- The LEA's system for establishing the estimates produces reasonable approximations of the activities actually performed.
- Comparisons of actual costs to budgeted distributions based on the monthly activity reports are made at least quarterly. If the variances between budgeted and actual costs are 10 percent or more, adjustments must be made on the LEA's financial records, including billings made to federal grantor agencies. If the variances between budgeted and actual costs are less than 10 percent, the adjustments may be recorded annually.
- The budget estimates or other distribution percentages are revised at least quarterly if necessary to reflect changed circumstances.

A sample PAR obtained from USDE is provided on page 407-10. The sample may help LEAs in designing their own instrument for getting the required documentation.

Approved Substitute System for Time Accounting for Federal Programs

For California LEAs, USDE has approved a substitute sampling system of time accounting for federal programs. The substitute system may be used by California's LEAs for substantiating federal salary and wage charges for those employees working on multiply funded activities or cost objectives.

The substitute system is intended to simplify recordkeeping for LEAs that must substantiate salary and wage charges to federal programs through the use of PARs or equivalent documentation. Without an approved substitute system, PARs must be prepared at least monthly for employees working on activities funded from multiple resources whenever federal funds are involved.

Under the substitute system approved for California, PARs may be required less frequently. Specifically, the approved substitute system allows LEAs to collect PARs from employees every fourth month (three times a year). The information from the PARs is used to estimate the percentage of time employees would spend on various federal programs in the next three months and reconcile the federal timekeeping estimates from the previous three months. This system works best when the composite workload produces an even distribution of salaries to accounts over the full 12-month period.

The following is a description of the substitute system process. The description assumes that the LEA begins the substitute recordkeeping process in July. However, LEAs may choose any month to begin the cycle. Because the starting month establishes the recordkeeping cycle for the year, LEAs should choose a starting month that most accurately reflects their annual average labor cost experience.

- All multiple -resource-funded employees (i.e., those employees funded from more than one resource, at least one of which is federal or one used in meeting cost sharing or matching requirements of federal awards) keep PARs for the full month of July to account for 100 percent of their time spent on activities for which they are compensated. From the PARs, labor distribution reports for July are generated to support effort distribution and charges for incurred costs in July and provide the basis for employee salary and fringe benefit allocations for August, September, and October.
- In November and again in March, employees keep PARs, which are used to:
 1. Support effort and labor costs incurred in November and March.
 2. Compare with and adjust the budgeted effort distribution for August through October and December through February.
 3. Project salary and fringe benefit allocations for December through February and April through June.

- The same process is followed once more in July to support incurred labor cost allocations for that month and to compare and adjust the budgeted effort distribution for April through June. Further, the July PARs start another round of labor distribution estimates for the second year.
- After the first full year on the system, LEAs may shift from collecting PARs three times a year to two times a year if the deviation between their total estimated and total actual time charges is constantly less than 10 percent. Thereafter, the twice-yearly PAR collection may be maintained as long as the deviation is constantly less than 10 percent.
- Written policies and procedures are essential to implementing an effective labor distribution system. Each LEA must develop its own instructions for the:
 1. Completion of PARs (including information about how frequently PAR data must be recorded and what constitutes adequate documentation)
 2. Review and approval cycle that is required
 3. Handling of completed forms
 4. Internal review process that will be established to ensure compliance

Generally, this information should provide enough detail to permit an understanding of how this system will operate from the point labor is expended to the point it is recorded in the accounting records and charged to federal awards.

LEAs must develop forms and management and employee instructional materials to meet their particular needs for time accounting. They may consult with their independent auditor for guidance specific to the LEA in this process. LEAs should provide training before implementing the system and do a trial run before beginning the actual substitute system process.

Important Rules:

1. For purposes of this substitute system, a “multifunded” or “multiple -resource-funded” employee means that the employee is funded from one of the following:
 - a. The employee is funded by more than one federal categorical program source, and that funding is not combined in an SWP.
 - b. The employee is funded by a mix of federal and state categorical program funding sources, and those sources are not combined in an SWP.
 - c. The employee is funded by a mix of federal categorical programs (other than an SWP) and general-purpose funding sources.

- d. The employee is funded by more than one nonfederal categorical program source, and one of the funding sources is used in meeting cost sharing or matching requirements of federal awards.
2. Those employees funded solely (100 percent) from a single federal source must be excluded from the substitute system because their data would distort the aggregate results of the multifunded data. (Those employees must prepare semiannual certifications.)
3. If LEAs use the substitute system, all multifunded employees who are required to complete PARs must participate.
4. PARs completed by each participating multifunded employee must cover the entire month that is being sampled.

The decision to use this substitute system for allocating salaries and wages to federal programs is completely optional for each LEA. After examining this substitute system, LEAs may wish to continue their current methods of substantiating salary and wage charges to federal programs rather than use the substitute system.

Sample Personnel Activity Report

Period Ending ¹ _____ Fiscal Year _____

Name _____ Division or Department _____

<u>Account Description</u>	<u>Account Number</u>	<u>Percent of Effort</u>
Project:	A	30
	B	30
	C	30
Administration		5
Cost Sharing		<u>5</u>
Total Effort		100%

I hereby certify that this report is an after-the-fact determination of actual effort expended for the period indicated, and I have full knowledge of 100 percent of these activities.

Employee Date Responsible Official² Date

¹ This report must be prepared at least monthly and coincide with one or more pay periods.

² This person is the supervisory official having firsthand knowledge of the activity performed by the employee (optional).

Note of Caution: This sample form will work well in those situations when an employee's time spent on federal programs is fairly predictable and does not vary much during the month. However, for those employees whose time is unpredictable and varies significantly from day to day, a more detailed personnel activity report may be appropriate. Keep in mind that hourly time accounting is the most acceptable method for auditors and that the safest approach is always to provide more documentation rather than less.

Documenting Salaries and Wages Charged to State Programs (Resources)

LEAs are required to document salaries and wages charged to state restricted funds (resources). The LEA may elect to use either the same A-87 documentation methods used to support salaries and wages charged to federal programs, as described in this section, or the documentation requirements described in pages 702-9 to 702-11 of Part I of this manual. The single cost objective rules that apply to federal programs, as explained on pages 407-1 and 407-2, can also be used to document salaries and wages charged to state restricted resources. However, if an employee being funded from state restricted funds is also funded from one or more federal categorical programs, that employee's time must be documented following A-87 documentation methods. As noted in page 407-6, under A-87 rules, PAR's or equivalent documentation must account for the total activity for which each employee is compensated.

Note that the documentation requirements for supporting the division/allocation of salaries and wages between goals, as described in Procedure 301 of Part II, or between functions, may be less rigorous than the requirement above.

